

## Georgia Southern University Digital Commons@Georgia Southern

---

Business in Savannah Articles

Business, College of - College Publications

---

10-7-2009

# Ga.'s Banks: Poor Second Quarter, Difficult Year

Edward H. Sibbald

Follow this and additional works at: <https://digitalcommons.georgiasouthern.edu/savannah>

---

### Recommended Citation

[http://coba.georgiasouthern.edu/pdf%20files/2009\\_10\\_07\\_Sibbald\\_Banking\\_Part\\_2.pdf](http://coba.georgiasouthern.edu/pdf%20files/2009_10_07_Sibbald_Banking_Part_2.pdf)

This article is brought to you for free and open access by the Business, College of - College Publications at Digital Commons@Georgia Southern. It has been accepted for inclusion in Business in Savannah Articles by an authorized administrator of Digital Commons@Georgia Southern. For more information, please contact [digitalcommons@georgiasouthern.edu](mailto:digitalcommons@georgiasouthern.edu).

# Ga.'s banks: Poor second quarter, difficult year

The first half of 2009 was a challenging and difficult period for Georgia banks.

The second quarter proved to be the worst period in more than 20 years with statewide losses exceeding \$1.2 billion. Year-to-date losses were \$1.8 billion compared to \$942 million in profits reported for the comparable period in 2008.

Several factors — common to most banks in the state — contributed to the substantial negative swing in profitability including:

- Net interest income, a primary driver of profitability, decreased \$400 million in 2009 compared to the similar period in 2008. Federal Reserve initiatives to cut rates during the fourth quarter of 2008 squeezed interest margins, which also were affected by interest income lost because of higher levels of nonperforming loans.

- Banks increased provisions for loss reserves by \$1.9 billion pre-tax compared to 2008 to cover loan losses and the sharp increase in nonperforming loans.

- The FDIC charged a special assessment above normal insurance premiums paid by banks. The negative impact was approximately \$133 million for Georgia banks, based on estimates provided by the

Georgia Bankers Association.

- The failure and closing of Silverton Bank, the independent “banker’s bank” on May 1 had a profound ripple effect in terms of losses in loan participations and the write-off of equity investments by Georgia community banks.

- Loans losses were \$2.4 billion in 2009 compared with \$945 million in 2008. Nonperforming loans (90 days or more past due and non-accrual loans) peaked at \$10.1 billion, almost double the level of a year earlier.

The performance of Georgia banks varied widely throughout the state. Many banks were profitable, but even more had losses, some so large as to distort average statewide statistics.

**Construction loans to builders and developers, as well as commercial real estate properties — strip malls, office buildings, etc. — were the primary sources of loan defaults and extended delinquencies.**

The Center for Excellence in Financial Services at Georgia Southern University tracks 38 banks between \$50 million and \$999,000 in asset size based in 21 counties in southeastern and coastal Georgia.

This southeastern region group lost \$29.9 million year-to-date compared with \$37.3 million in profits in 2008. Performance for individual banks ranged widely from \$2.4 million in net income for Heritage Bank in Hinesville to a loss of \$13.7 million for Darby Bank and Trust, based in Vidalia.

Eighteen banks were profitable. Yet five banks combined lost \$30.3 million.

Many of the same factors that affected banks statewide were at play in southeastern Georgia, although to a lesser degree.

Lower interest margins and increased expenses for loss reserves to accommodate higher loan defaults and non-performing loans were primary factors in year-to-date losses. Construction loans to builders and developers, as well as commercial real estate properties — strip malls, office buildings, etc. — were the primary sources of loan defaults and extended delinquencies.

The region was acutely affected by the failure of Silverton Bank.

More than 75 percent of the 38 banks in the region had correspondent bank-

## THE STATE OF GEORGIA'S BANKS

This is the second of a four-part series:

**Sept. 30:** The performance of Georgia banks year-to-date in 2009 in context of issues and challenges facing banks nationwide.

**TODAY:** Banks in coastal Georgia.

**Part 3:** The unintended adverse consequences of current regulatory and Treasury Department initiatives on community banks in Georgia.

**Part 4:** Bankers’ suggestions for modifying several current regulatory practices.

ing relationships with and many had equity investments in Silverton Bank. Some of the smaller banks in lower-growth communities were involved in Silverton Bank-led loan participations that defaulted in Georgia, the coastal communities of Florida and South Carolina or Arizona.

Equity investments in Silverton Bank became worthless and were written off.

Overall, the 38-bank group outperformed statewide averages in all key financial and risk management metrics. The region’s overall performance was in the “middle of the pack” compared to other geographic regions as categorized by the Georgia Bankers Association.

No banks in the region have failed, although several banks appear to be severely weakened.

Ten banks headquartered in Chatham, Effingham, Bryan and Bulloch counties fared slightly better. Half of them were profitable, and a

sixth was virtually at a breakeven level.

Bryan Bank and Trust and Savannah Bank were the most profitable locally.

Four banks had losses year-to-date, and two of them had combined losses of \$9.7 million. Four banks had pre-tax losses of \$8.2 million related to Silverton Bank’s equity.

While improvement is expected in the third and fourth quarters, economic conditions and the banks’ borrowers remain fragile. It is expected banks will continue to build loss reserves and flush out bad loans, sacrificing short-term improvements in earnings in order to strengthen their balance sheets.

Edward H. Sibbald is the BB&T executive in residence in banking, College of Business Administration, Georgia Southern University and director of the college’s Center for Excellence in Financial Services. Contact him at [ehsibbald@georgiasouthern.edu](mailto:ehsibbald@georgiasouthern.edu).



**Edward H. Sibbald**

## Gulfstream Management Association meets



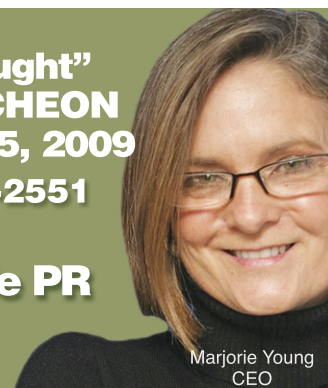
Photos by Kim Thomson/Carriage Trade PR

Cindy Meagher of the Sullivan Group spoke at the Gulfstream Management Association Clubs and Community Roll Out event on Sept. 29 at the Cambria Suites Meeting Room. Meagher spoke about Career Development for Gulfstream Employees. GMA also debuted a new Web site for Gulfstream Management Association members to network and stay connected.

**“Food for Thought”  
SEMINAR/LUNCHEON  
Thursday, Oct. 15, 2009  
RSVP 912-963-2551**

**Carriage Trade PR**  
*since 1995*

[carriagetradepr.com](http://carriagetradepr.com)



Marjorie Young  
CEO

**Signs  
BY  
Design**

**Signs, Banners, Vinyl Window / Boat / Vehicle Lettering,  
Dimensional Letters, Magnetics, Real Estate & Job Site,  
Large format Printing, Wood, Plastic, Sandblasted,  
Logo Design & Reproduction, and MUCH more!**

**912 - 898 - 0288**